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IN THE

Supreme Court of the United States

OCTOBER TERM, 1945

NO. [redacted] 28

ALPINE MacGREGOR, Petitioner,

v.

WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY, a Corporation, Respondent.

On Writ of Certiorari to the Supreme Court of the State of Pennsylvania.

BRIEF FOR PETITIONER

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INDEX.

	PAGE
Brief for Petitioner	1
Jurisdiction	2
Statement of the Case	2
Specification of Errors	8
Summary of Argument	9
Argument	10
Point I	10
The Decision of the Supreme Court of the State of Pennsylvania is in Conflict with the Decisions of This Court	10
The Question of Validity of the Jones Patent is a Federal Question Collateral to the Question of Legality of the Contract	13
Jones Patent 1,651,709 Prima Facie Invalid	13
(a) By claiming old Product in Terms of its Use or Function	14
(b) As not Claiming any Invention Described or Shown in the Patent	16
(c) As Claiming an Invention Formally Abandoned in the Patent Office	17
(d) As Failing to Comply With Section 4888 of the Revised Statutes	17
Point II	19
The Decision of the Supreme Court of the State of Pennsylvania Is in Conflict with Recent Federal Decisions	19

PAGE

Point III 21

The Decision of the Court Below Is In Conflict With the Applicable Decisions of This Court 21

Conclusion 23

CASES AND STATUTES CITED.

American Optical Co. v. New Jersey Optical Co., 50 F. Supp. 806 20

Angier v. Eaton, Cole & Burnham Co., 98 Pa. 594 .. 7

Ansonia Brass & Copper Co. v. Electrical Supply Co., 144 U.S. 11 15

Aron v. Manhattan Railway Co., 132 U.S. 84 15

Bauer & Cie v. O'Donnell, 229 U.S. 1 ..... 21, 22

Benoit v. Wadley Co., 54 F. 2d 1041, 1043 16

Brown v. Piper, 91 U.S. 37 15

Carbice Corp. v. American Patents Corp, 283 U.S. 27 21

Chicago Metallic Manufacturing Co. v. Katzinger Co., 139 F. 2d 291 ..... 7, 19

Consolidated Motor Parts v. Nat. Motor Bearing Co., 80 F. 2d 97, 99 16

Corbin Cab Lock Co. v. Eagle Lock Co., 150 U.S. 38. 17

Edison v. Amer. Mutoscope Co., 114 F. 926, 934 16

Ethyl Gas v. United States, 309 U.S. 436 ..... 21, 22

Fox Film Corp. v. Muller, 296 U.S. 207 2

PAGE

General Electric Co. v. Wabash Appliance Corp., 304 U.S. 364 17

Gilvary v. Cuyahoga Valley Ry. Co., 292 U.S. 57 2

Great Western Telegraph Co. v. Burnham, 162 U.S. 339 2

Hazelton v. Scheckles, 202 U.S. 71 12

Holland Furniture Co. v. Perkins Glue Co., 277 U.S. 245 14

Hubbell v. U.S., 179 U.S. 77 17

Ingersoll Steel & Disc. Co. v. Budd Wheel Co., 67 F. 2d 753, 757 16

Judicial Code 28 U.S.C. 344, Sec. 237(b) 2

Kaumagraph Co. v. Superior Trade Mark Mfg. Co., 72 F. 2d 417 15

Keystone Driller Co. v. North West Eng. Co., 294 U.S. 42 17

Knapp v. Morss, 150 U.S. 221 15

Leggett v. Avery, 101 U.S. 256, 259 17

Leitch Mfg. Co. v. Barber Co., 302 U.S. 458 21

Mercoid Corp. v. Mid-Continent Investment Co., 320 U.S. 661 21

Miller and Others v. Foree, 116 U.S. 22 15

Minnie v. Port Huron Terminal Co., 295 U.S. 647, 648 2

Monongahela, etc. v. Jutte, 210 Pa. 288 12

PAGE

Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co., 152 U.S. 425 17

Morton Salt Co. v. Suppiger, 314 U.S. 488 21

Noble v. Oklahoma City, 297 U.S. 481 2

Palmer Clay Products Co. v. Brown, 297 U.S. 227 .. 2

Penn General Casualty Co. v. Pennsylvania ex rel. Schnader, 294 U.S. 189 2

Republic Iron and Steel Co. v. Youngstown S. & T. Co., 272 F. 386, 390 16

Royer v. Coupe, 146 U.S. 524 17

Slawson v. Grant Street R.R., 107 U.S. 649 18

Smith's Appeal, 113 Pa. 579 12

Sola Electric Co. v. Jefferson Electric Co., 317 U.S. 173 ..... 6, 8, 9, 10

State Bank of Chicago v. Hillman's, 180 F. 732 16

Taggart v. Bremner, 295 F. 506 16

United Carbon Co. v. Binney & Smith Co., 317 U.S. 228 18

U.S. Ozone Co. v. U.S. Ozone Co., 62 F. 2d 881, 891 .. 17

Vulcan Mfg. Co. v. Maytag Co., 293 U.S. 553 2

Weil Pump Co. v. Chicago Pump Co., 74 F. 2d 13, 17. 16

Western Indemnity Co. v. Crafts, 240 F. 1, 7 12

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NO. 410

ALPINE MACGREGOR, Petitioner,

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WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY, a Corporation, Respondent.

On Writ of Certiorari to the Supreme Court of the State of Pennsylvania.

BRIEF FOR PETITIONER

To the Honorable, the Chief Justice and Associate Justices of the Supreme Court of the United States:

This case is before the Court upon a writ of certiorari to the Supreme Court of the State of Pennsylvania, petition therefor being granted November 5, 1945 (R. 266). The final judgment of that Court under review here was entered June 29, 1945 (R. 262) and reported 43 A. 2d 332, affirming the decision of said Court

(reported 38 A. 2d 244, R. 235) entered June 30, 1944 on petitioner's first appeal to said Court.[1] The petition for certiorari was filed September 7, 1945.

The decision below was unanimous and the opinions of the Court on both appeals were written by Chief Justice Maxey.

Jurisdiction.

The final judgment to be reviewed here was entered June 29, 1945. Petition for certiorari was filed September 7, 1945 and was granted November 5, 1945. The jurisdiction of this Court is invoked under Section 237(b) of the Judicial Code, 28 U.S.C. 344, as amended. Cases believed to sustain the jurisdiction are *Palmer Clay Products Co. v. Brown,* 297 U.S. 227; *Minnie v. Port Huron Terminal Co.,* 295 U.S. 647; *Noble v. Oklahoma City,* 297 U.S. 481; *Gilvary v. Cuyahoga Valley Ry. Co.,* 292 U.S. 57; *Fox Film Corp. v. Muller,* 296 U.S. 207; *Penn General Casualty Co. v. Pennsylvania ex rel. Schnader,* 294 U.S. 189; *Vulcan Mfg. Co. v. Maytag Co.,* 293 U.S. 553.

Statement of the Case.

This is an action *in assumpsit* for accounting under a patent royalty license tried in the Common Pleas

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[1]The issues herein sought to be reviewed were decided by the Supreme Court of Pennsylvania in the first appeal, which said decision, by reference thereto, is incorporated in the opinion of said Court in the second appeal; and this Court has repeatedly held that it is not concluded from considering on appeal from the second judgment questions decided by the state court only on the first appeal; *Great Western Telegraph Co. v. Burnham,* 162 U. S. 339.

Court, Allegheny County, Pittsburgh, Pennsylvania, without a jury.

The statement of claim (R. 3) alleges a license agreement (R. 123) dated November 16, 1937 between respondent and petitioner under Jones patent No. 1,651,709 dated December 6, 1927 (R. 219) covering the selling of brazing solders as described and claimed in the said patent. The statement of claim further alleges that said license was entered into by the parties in compromise of a patent infringement suit. Respondent's reference to petitioner's former employment throughout these proceedings is a deceptive and illusory expedient employed to divert the Court's attention from the plain fact that the original patent infringement suit was an ingenious scheme to force a license upon petitioner which, because of the price fixing provisions, enabled respondent to regulate and control petitioner's sale of copper phosphorus brazing solders. The record shows (R. 43) that petitioner was respondent's sole competitor in the sale of copper phosphorus brazing solders.

The license agreement provides, *inter alia,* that petitioner pay respondent a royalty of 10% of the net selling price of brazing solders as established by price schedules[2] furnished by respondent in conformity with paragraphs 5 and 6[3] of the license agreement.

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[2] Such price schedules (R. 149, 151) were furnished for both distributor and user selling prices with the request they be maintained by petitioner under the provisions of sections 5 and 6 of the license agreement (R. 148).

[3] Paragraphs 5 and 6 of the license agreement are as follows:

"5. WESTINGHOUSE grants this license on the express condition that the prices, terms and conditions of

Respondent charges that in conformity with said license petitioner had paid royalties on a solder containing copper, phosphorus and tin, but that petitioner had refused to pay such royalties on a solder containing copper, phosphorus and silver, and that upon respondent's request for the payment of royalty on the latter, petitioner also refused to thereafter pay the royalties for the solder containing copper, phosphorus and tin.

The answer (R. 8) denies that petitioner's solder containing copper, phosphorus and tin, and copper, phosphorus and silver, comes under respondent's patent and within the terms of the license agreement, and denies

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sale for use or sale in the United States of America, its territories and possessions of brazing solders embodying the invention covered by said Letters Patent and so long as such brazing solders continue to be covered by said patent, shall be no more favorable to the customer than those which from time to time WESTINGHOUSE establishes and maintains for its own sales of similar or competing brazing solders under such patent to such or other similarly situated customer purchasing in like quantities. MACGREGOR shall be notified of all such prices, terms and conditions of sale fixed by WESTINGHOUSE.

The prices, terms and conditions of sale of WESTINGHOUSE may be changed by WESTINGHOUSE from time to time, notice being given MACGREGOR, but not less than five days' notice shall be given before any such change shall go into effect.

6. It is agreed that it shall be regarded as an evasion of this agreement amounting to a breach thereof for MACGREGOR to reduce WESTINGHOUSE's sale price or alter WESTINGHOUSE's selling terms and conditions of sale directly or indirectly either through its own organization, its agents or others by any device, subterfuge or evasion or by any means whatever or to make the prices lower or the terms or conditions more favorable than those set forth by WESTINGHOUSE."

that petitioner is accountable to respondent for any royalties as charged in the complaint.

The answer further avers that during the prosecution of the application that has matured into patent 1,651,709, respondent so distinguished the invention of that patent from the prior art cited by the Patent Office that it is estopped from asserting the patent to embrace within its scope solder comprising copper, phosphorus and tin or silver, or any materials other than copper and phosphorus as disclosed in the patent.

Petitioner's answer contains a set-off and counterclaim (R. 12) requesting repayment of royalties heretofore paid and further averring that if respondent's patent be construed to cover brazing solders containing tin and silver it is invalid and void because the alleged invention purported to be patented thereby does not constitute patentable knowledge or invention within the meaning of the Patent Laws in view of the prior state of the art and because of respondent's admission that the alloy purported to be covered by the patent is old.[4]

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[4] The licensed patent to Jones 1,651,709 (R. 219) is for an alloy of copper and phosphorus, the preferred composition, as stated in the patent, being 8.2% of phosphorus and the remainder copper, which melts at 707° C. This exact proportion of copper and phosphorus is known as the eutectic alloy of copper and phosphorus and is fully disclosed in the prior publication "Metallic Alloys" of 1913, by Gulliver (R. 147). Respondent in its brief below admitted that the alloy was old *per se* but argued that the invention was in the use of the alloy as a solder. Respondent there said:

> "For example, plaintiff could not now claim that the Jones patent covers copper-phosphorus alloys generally, for as defendant's brief has pointed out at page 21 Jones admitted that such alloys *per se* were

The answer further avers that because of the price fixing provisions of the license agreement it is illegal and void and in violation of the anti-trust laws, namely, the Sherman and Clayton Acts, and the license evidences an illegal use of respondent's patent monopoly (R. 15).

After filing of the complaint in the state court, petitioner filed a declaratory judgment suit in the United States District Court for the Western District of Pennsylvania, asking that the patent be declared invalid and the license contract illegal. This suit was dismissed on motion of respondent on the ground that the state court having jurisdiction of the case could pass upon the question of validity of the patent and could dispose of the question of violation of the Sherman Act.

In the subsequent trial of the issues in the state court, the court refused testimony and exhibits as proof of invalidity of the patent (R. 62, 64), the court holding (R. 176) "that defendant, being a licensee, and the price fixing clauses of the license not being in suit, is estopped to attack the validity of the patent under which he is licensed and as between the parties the patent is valid."

On appeal to the Supreme Court of the State of Pennsylvania, the trial court was affirmed on the ground that the price fixing provision of the license agreement was not involved in the litigation to recover royalties and that the decision by this Court in *Sola Electric Co.*

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old before his invention. He specifically agreed that his invention is restricted to the solder described in the claims, as distinguished from copper-phosphorus alloys generally."

v. Jefferson Electric Co., 317 U. S. 173, does not preclude the respondent from invoking the doctrine of estoppel.[5] The Court below, in reference to its former decision in *Angier v. Eaton, Cole & Burnham Co.*, 98 Pa. 594, held that it is a recognized principle applicable to patent licenses that while the patent is apparently valid and the licensee is enjoying the benefit of its supposed validity, he is bound to pay the stipulated royalty, and cannot set up as a defense the actual invalidity of the patent.

The Supreme Court of Pennsylvania ignored the recent decision by the Seventh Circuit Court of Appeals in *Chicago Metallic Manufacturing Co. v. Katzinger Co.*, 139 F. 2d 291, construing this Court's decision in *Sola Electric Co. v. Jefferson Electric Co.*, to the effect that a licensee sued for royalty under a patent license may prove illegality of the license by establishing invalidity of the patent so long as such license contains price fixing provisions, irrespective of whether the licensor is attempting to enforce such price fixing provisions.

On the 19th day of August, 1944, petitioner filed a petition in this Court for writ of certiorari to the Supreme Court of Pennsylvania, seeking a review of that court's decision, which petition was denied on October

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[5] The Pennsylvania Supreme Court said:

"The price-fixing clause is not in issue. It is raised merely as a defense to a suit for accounting and payment of accrued royalties. The legality, the enforceability of the price-fixing clause is a moot question. We therefore do not propose to declare the Jones patent invalid. Whether the price-fixing clause in the license is legal or invalid is not before this Court. It is our judgment that the decision of the Sola case does not control or determine the instant case."

23, 1944 with the statement "for want of a final judgment". Petitioner, in compliance with the order and judgment of January 24, 1944, rendered an accounting on which the Court entered judgment (R. 262) in favor of the respondent in the sum of $15,485.96, from which judgment a second appeal was filed in the Supreme Court of the State of Pennsylvania, which Court, on the 29th day of June, 1945, rendered and filed its opinion affirming the judgment in accordance with the opinion filed by said Court in the first appeal (R. 235).

Petition for writ of certiorari to the Supreme Court of the State of Pennsylvania was filed September 7, 1945 and was granted November 5, 1945.

Specification of Errors.

The Supreme Court of the State of Pennsylvania erred in holding:

1. That this Court's decision in *Sola Electric Co. v. Jefferson Electric Co.*, 317 U.S. 173, does not govern the decision of any issue raised in this case, and that the decision in the *Sola* case does not preclude the plaintiff-respondent from invoking the doctrine of estoppel.

2. That to grant the prayer for an accounting does not result in anything which is prohibited by the federal anti-trust laws.

3. That whether the price fixing clause in the license is legal or invalid was not in issue, but if so could be stricken by application of the "Blue Pencil Rule" for the purpose of decreeing an accounting.

4. That while a patent is apparently valid and the licensee is enjoying the benefit of its supposed validity, he is bound to pay the stipulated royalty and cannot set up as a defense the actual invalidity of the patent.

SUMMARY OF ARGUMENT

This case is one of that class with which this Court has dealt under the illegal or unlawful extension or use of the patent monopoly. More specifically, it deals with violation of the anti-trust laws by the improper use of patents in fixing and maintaining prices on unpatented articles. The asserted federal right here sought to be reviewed is the right to prove illegality of the contract under the Sherman Act which was denied by the State Court and which collaterally raises the further federal question of invalidity of the patent. This Court has decided the question in the case of *Sola Electric Co. v. Jefferson Electric Co.*, 317 U.S. 173. The rationale of the opinion there expressed is simply that agreements having price fixing provisions are illegal under the Sherman Act and no less so under the guise of patent licensing, unless the patent monopoly thus asserted is a valid one.

The questions here sought to be reviewed are whether or not the Court below properly held petitioner estopped to attack the validity of the Jones patent 1,651,709 (R. 219), for the purpose of establishing illegality of the license contract containing price fixing provisions, and whether the Court properly held that, "as between these parties," the Jones patent is valid. The Court did not attempt to reconcile its decision with this Court's opinion in the case of *Sola Electric Co. v. Jefferson Electric Co.*, 317 U.S. 173, but held that if the price fixing provisions of the license contract are illegal they can be stricken by application of the so-called "Blue Pencil Rule".

ARGUMENT

POINT I.

The Decision of the Supreme Court of the State of Pennsylvania Is in Conflict With the Decisions of This Court.

In *Sola Electric Co. v. Jefferson Electric Co.*, 317 U.S. 173, this Court had before it the question of whether or not a licensee was estopped to challenge the validity of the licensed patent in a suit for an accounting where such license contains price fixing provisions, and whether the doctrine of estoppel is so in conflict with the Sherman Act's prohibition of price fixing, that this Court may resolve the question even though its conclusion be contrary to that of a state court. Mr. Chief Justice Stone, speaking for the Court, said (p. 173):

> "Agreements fixing the competitive sales price of articles moving interstate, not within the protection of a patent, are unlawful because prohibited by the Sherman Act.
>
> * * * * * * *
>
> "* * * petitioner may assert the illegality of the price-fixing agreement and may offer any competent evidence to establish its illegality, including proof of the invalidity of the patent.

The Supreme Court of Pennsylvania attempts to distinguish the case at bar from the *Sola* case by holding that in the latter the patent owner was attempting to enforce the maintenance of prices fixed in accordance with the terms of the license. If that were the full import of that decision the pronouncement by this Court that patent licenses containing price fixing provisions are illegal and a violation of the Sherman Act, save only

when supported by a valid patent, would have no significance so long as the patent owner did not request a court to enforce the price fixing provisions *per se*. It was obviously not the intention to distinguish between illegal agreements on the basis of the use made of such agreements. As we read the *Sola* decision, this Court pronounced that the public policy of the Sherman Act condemns the practice of price fixing of articles entering interstate commerce except only when such articles are within the scope of a valid patent monopoly.

Respondent apparently is of a like view because after the trial of this case but before the decision was handed down, it sent petitioner a telegram purporting to cancel the price fixing clauses, paragraphs 5 and 6 of the license agreement.[6]

The trial court said (R. 173) "to interpret the *Sola* case as defendant would have us do would make of the entire Patent Law a farce—no patent worth the paper on which it is written", and in avoidance of the *Sola* decision, held (R. 176, Conclusion of Law No. 11):

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[6] "Pittsburgh Pa Apr 12
ALPINE MACGREGOR CARE ALLOY SPECIALTY CO
2141 WAVERLY ST
REFERRING TO THE LICENSE AGREEMENT EXECUTED NOVEMBER 19 1937 BY AND BETWEEN WESTINGHOUSE ELECTRIC AND MFG CO AND ALPINE MACGREGOR UNDER UNITED STATES PATENT 1651709 WE WISH TO NOTIFY YOU THAT EFFECTIVE APRIL 17 1942 THE WESTINGHOUSE ELECTRIC AND MFG CO HEREBY WAIVES DURING THE TERM OF THE AFORESAID AGREEMENT ARTICLES 5 AND 6 THEREOF RELATING TO PRICES TERMS AND CONDITIONS OF SALE AND HEREBY WITHDRAWS ALL SCHEDULES OF PRICES TERMS AND CONDITIONS OF SALE UNDER SAID AGREEMENT NOW IN FORCE
J B SEASTONE
WESTINGHOUSE ELECTRIC AND MFG CO"

"As between these parties the Jones patent No. 1,651,709 is valid, and the license agreement is legal and enforceable."

The Supreme Court of Pennsylvania held (R. 240):

"The price-fixing clause is not in issue. It is raised merely as a defense to a suit for accounting and payment of accrued royalties. The legality, the enforceability of the price-fixing clause is a moot question. We therefore do not propose to declare the Jones patent invalid."

The court below further held that if the price fixing clauses are illegal they could be stricken from the agreement by application of the so-called "Blue Pencil Rule", recognized by the Supreme Court of Pennsylvania, *Smith's Appeal*, 113 Pa. 579; *Monongahela, etc. v. Jutte*, 210 Pa. 288, with no effect on the obligation to pay royalty.

It is well settled law that the "Blue Pencil Rule" may not be applied to contracts violating state or federal statutes in contravention of the public policy of such statute. In *Hazelton v. Scheckles*, 202 U.S. 71, 78, Mr. Justice Holmes, speaking for the Supreme Court, said:

"Every part of the consideration goes equally to the whole promise and therefore, if any part of it is contrary to public policy, the whole promise fails."

In *Western Indemnity Co. v. Crafts*, 240 F. 1, 7, the Circuit Court of Appeals for the Sixth Circuit after quoting from *Hazelton v. Scheckles* said, with reference to a state statute:

"The statute clearly implies a rule of public policy which is condemnatory of such a scheme, and the effect of this was to taint the very consideration upon which the indemnity contract was founded.

* * * * * * *

"See also, *McMullen v. Hoffman,* 174 U. S. 639, 654, 19 Sup. Ct. 839, 43 L. Ed. 1117; *Oscanyan v. Arms Co.,* 103 U. S. 261, 268 et seq., 26 L. Ed. 539; *Arnold v. Clifford,* Fed. Cas. No. 555, C. C., decided by Mr. Justice Story on circuit."

The Question of Validity of the Jones Patent Is a Federal Question Collateral to the Question of Legality of the Contract.

The holding by the State Court that "as between these parties the patent is valid" on the non-federal ground of estoppel, is a mere evasion of this Court's decision in the *Sola* case which was unreasonably employed to avoid a decision on the question of legality of the contract under the Sherman Act, and this Court has jurisdiction and must necessarily review the question of validity of the Jones patent to determine the issue of legality of the patent license contract.

Jones Patent 1,651,709 Prima Facie Invalid.

The Jones patent 1,651,709 is *prima facie* invalid:

(a) By claiming old product in terms of its use or function.

(b) As not claiming any invention described or shown in the patent.

(c) As claiming an invention formally abandoned in the Patent Office.

(d) As failing to comply with Section 4888 of the Revised Statutes.

(a) By claiming old product in terms of its use or function.

If the price fixing provisions cannot be stricken under the "Blue Pencil Rule", then legality of the license can be determined only with reference to the validity of the Jones patent, which is *prima facie* invalid under the law pronounced by this Court because it is for an alleged new use of an admittedly old alloy. The Trial Court (R. 171) found that the alloy of the Jones patent was old, but said:

> "The plaintiff introduced evidence to establish the fact that the prior art does not disclose the Jones solder and that even though Gulliver in his textbook—'Metallic Alloys—1913' commented upon an alloy made of copper and phosphorus that was no bar to patentable invention *making new use of such old material.*"

In *Holland Furniture Co. v. Perkins Glue Co.*, 277 U.S. 245, Mr. Chief Justice Stone, speaking for this Court, said:

> "* * * the attempt to broaden product claims by describing the product exclusively in terms of its use or function is subject to the same vice as is the attempt to describe a patentable device or machine in terms of its function. As a description of the invention it is insufficient and if allowed

would extend the monopoly beyond the invention. * * * Cochran v. Badische, 112 U.S. 293."

This is the well settled law of this Court as pronounced in *Miller and others v. Foree,* 116 U.S. 22; *Brown v. Piper,* 91 U.S. 37; *Knapp v. Morss,* 150 U.S. 221; *Aron v. Manhattan Railway Co.,* 132 U.S. 84; *Ansonia Brass & Copper Co. v. Electrical Supply Co.,* 144 U.S. 11.

The rule of law was specifically applied to a composition of matter, such as the alloy here, in *Kaumagraph Co. v. Superior Trade Mark Mfg. Co.,* 72 F. 2d 417, wherein the Second Circuit Court of Appeals said:

"A patent for a composition of matter covers the composition described and claimed, but not every use or function of it. A description of such a composition in terms of its use or function would not be sufficient to make it patentable. Holland Furniture Co. v. Perkins Glue Co., 277 U.S. 245."[7]

Under the foregoing authorities the mere use of an old alloy for soldering is not patentable invention and the Jones patent herein licensed is *prima facie* invalid.

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[7] In the prosecution of his application in the United States Patent Office, when rejected on the publication to Gulliver, "Metallic Alloys" (R. 147), applicant admitted that the composition of his alloy was old. He said (R. 133):

"Applicant admits that he is not the first to produce a copper phosphorus alloy of this approximate composition but believes that he has discovered new properties of such alloy which make it especially adapted for application in soldering."

Respondent in its brief below made a like admission, as quoted in the footnote p. 5 of this brief, but it contended that the invention resides in the use of the old alloy for soldering.

(b) As not claiming any invention described or shown in the patent.

The claims of the Jones patent are further invalid as not being for any invention described or shown in the patent. The claims originally filed in the Patent Office, numbered 3, 4 and 8 (R. 132), for the only alloys described in the patent were canceled after rejection and claims 1 to 4 of the patent here in suit are *prima facie* invalid as not being for any invention described or shown in the patent[8]; *Edison v. Amer. Mytoscope Co.*, 114 F. 926, 934, C.C.A. 2; *State Bank of Chicago v. Hillman's*, 180 F. 732, C.C.A. 7; *Taggart v. Bremner*, 295 F. 506, C.C.A. 7; *Republic Iron and Steel Co. v. Youngstown S. & T. Co.*, 272 F. 386, 390, C.C.A. 6; *Benoit v. Wadley Co.*, 54 F. 2d 1041, 1043, C.C.A. 7 (1932); *Weil Pump Co. v. Chicago Pump Co.*, 74 F. 2d 13, 17, C.C.A. 7 (1934); *Consolidated Motor Parts v. Nat. Motor Bearing Co.*, 80 F. 2d 97, 99, C.C.A. 2 (1935); *Ingersoll Steel & Disc. Co. v. Budd Wheel Co.*, 67 F. 2d 753, 757, C.C.A. 7 (1933).

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[8] The only alloys mentioned in the patent specification as useful for soldering are, copper and phosphorus containing (a) 10% or less phosphorus, (b) containing from 6% to 9% phosphorus, (c) containing 8.27% phosphorus which melts at about 707°C. As shown by the file history of the patent (R. 132) the original claims 3, 4 and 8, as filed in the Patent Office and cancelled, were directed to these alloys in the order named and read as follows:

"3. A solder comprising an alloy of copper and phosphorus containing less than 10% of phosphorus.

"4. A solder comprising an alloy of copper and phosphorus containing about 6% to 9% of phosphorus.

"8. A solder comprising a eutectic alloy of copper and phosphorus containing 8.27% phosphorus which melts at 707°C."

The patent monopoly otherwise would thus be extended beyond the discovery and would discourage rather than promote inventions; *U. S. Ozone Co. v. U. S. Ozone Co.*, 62 F. 2d 881, 891, C.C.A. 7 (1932).

(c) As claiming an invention formally abandoned in the Patent Office.

It is fundamental patent law that a patentee is estopped from asserting his patent to cover subject matter canceled from the application during its prosecution in the Patent Office; *Royer v. Coupe*, 146 U.S. 524; *Corbin Cab Lock Co. v. Eagle Lock Co.*, 150 U.S. 38; *Hubbell v. U.S.*, 179 U.S. 77; *Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co.*, 152 U.S. 425; *Keystone Driller Co. v. North West Eng. Co.*, 294 U.S. 42.

Claims 1 to 4 here in suit cannot be read without including the subject matter of the canceled claims.[9]

In *Leggett v. Avery*, 101 U.S. 256, 259, Mr. Justice Bradley, speaking for the Court, said:

> "The allowance of claims once formally abandoned by the applicant, in order to get his letters patent through, is the occasion of immense frauds against the public."

(d) As failing to comply with Section 4888 of the Revised Statutes.

The claims of the patent are further invalid under recent decisions by this Court as failing to comply with Section 4888 of the Revised Statutes. In *General Electric Co. v. Wabash Appliance Corp.*, 304 U.S. 364, the Court said:

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[9] See footnote 8, page 16.

"We need not inquire whether Pacz exhibited invention, or whether his product was anticipated. The claim is invalid on its face. It fails to make a disclosure sufficiently definite to satisfy the requirements of R.S. Section 4888, 35 U.S.C. Sec. 33 * * *."

This case was followed in *United Carbon Co. v. Binney & Smith Co.*, decided by this Court on the same day as the *Sola* case, and reported 317 U.S. 228.

Obviously the claims are indistinct both as to the range of proportions of the compositions employed and the temperature range at which they are to be used, none of the compositions or temperature ranges of the claims being described in the patent.

Further consideration of invalidity based on the prior art of record in this case is unnecessary, and no amount of evidence pro or con could alter the fact that the Jones patent is invalid. Under such circumstances this Court, in *Slawson v. Grand Street R.R.*, 107 U.S. 649, Mr. Justice Wood speaking for the Court, said:

"If they [the patents] are void because the device or contrivance described therein is not patentable, it is the duty of the Court to dismiss the cause on that ground, whether the defense be made or not."

Where, as here, the question of validity is collateral to the question of legality of the contract, a finding of invalidity by this Court under its decision in the *Sola* case will result in a finding of illegality of the contract.

POINT II.

The Decision of the Supreme Court of the State of Pennsylvania Is in Conflict With Recent Federal Decisions.

The contention in the Court below that the *Sola* decision does not apply unless the enforcement of a price fixing provision is directly in issue is in conflict with the decision of the Seventh Circuit Court of Appeals in *Chicago Metallic Manufacturing Co. v. Katzinger Co.*, 139 F. 2d 291. In that case the District Court had likewise held that the *Sola Electric* case did not apply because price fixing had not been proven and there was further no proof that respondent attempted to carry out the price fixing provisions. The Court of Appeals, in reversing the District Court, said:

> "The license agreement, Paragraph 11, supra, note 1, did provide for a clear price-fixing arrangement. The appellee will not be heard to say that it really was not in favor of the provisions as to price-fixing contained in a written agreement it had signed, or that it did not practice price-fixing. The important thing is that the appellee had provided by contract for the right to fix prices. The agreement was plain and unambiguous. It is not claimed otherwise. There was no justification for the construction that the District Court put upon it to avoid the scope of the Supreme Court's opinion in the Sola case. By the plain provisions of the license agreement, there were arrangements for price-fixing. This was not a separable provision of the agreement, and it was, like the rest of the agreement, based upon a common consideration and was

a part of the contract after notice of determination, though functus officio as to the future. The agreement was not purged of the deleterious effect of the price-fixing arrangement by notice of termination. The vice lay in its incorporation in the contract at all. A contract containing price-fixing provisions which do not have the protection of a lawfully granted patent monopoly is invalid, being a violation of the Sherman Anti-Trust Act, 15 U.S.C.A. §§ 1-7, 15 note, and no recovery may be had upon it. Continental Wall Paper Co. v. Louis Voight & Sons Co., 212 U.S. 227, 29 S. Ct. 280, 53 L. Ed. 486. Therefore, since the validity of the entire contract depends upon the validity of the patent, it is clear that no estoppel arising out of the contract can prevent an examination of the patent's validity.

"We decide on the authority of the Sola case, supra, that the appellant was not estopped to deny the validity of the patents, because the license agreement which provided for the estoppel carried a provision for price-fixing. For that reason, no estoppel could arise."

In a case decided by the District Court, District of Massachusetts, July 9, 1943, *American Optical Co. v. New Jersey Optical Co.* (United States intervener), 50 F. Supp. 806, in an action for an accounting of royalties under patent license agreements containing price fixing provisions, plaintiff, as in the instant case, attempted to distinguish the case at bar from the *Sola* case by asserting that the *Sola* case applies only where the price fixing provision is in issue and not in an accounting for royalties, but the Court said:

"I am of the opinion that the Supreme Court intended no such distinction."

POINT III.

The Decision of the Court Below Is in Conflict With the Applicable Decisions of This Court.

The decision by the Court below is in conflict with the decisions of this Court holding that a patent is unenforceable unless the owner confines the use of his patent to the monopoly granted thereby; *Carbice Corp. v. American Patents Corp.*, 283 U.S. 27; *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458; *Bauer & Cie v. O'Donnell*, 229 U.S. 1; *Ethyl Gas. v. United States*, 309 U.S. 436; *Morton Salt Co. v. Suppiger*, 314 U.S. 488; *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661.

In reliance upon the price fixing provisions, paragraphs 5 and 6 of the agreement, respondent issued not only a distributor price list, Defendant's Ex. L (R. 151), but a user price list as well (R. 149), and instructed petitioner by letter dated July 11, 1940 (R. 148) to enforce both the user and distributor price and discount sheets.[10]

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[10] Excerpt from letter dated July 11, 1940:

"Confirming our conversation with you today, we are handing you herewith copies of our revised User Price List 26-820, pages 1 and 2, and Distributor Price and Discount Sheets 26-826, pages 1, 2 and 3. These modified price and discount sheets are to be made effective August 1, 1940.

"In connection with this price form you of course understand your obligation to observe and follow these prices, terms, and conditions of sale established by Westinghouse in accordance with the provisions of paragraph 5 of our license agreement with you dated November 16, 1937. These prices are minimum and discounts are maximum and neither is to be bettered either directly or indirectly in any manner whatsoever."

Petitioner testified (R. 53 to 56) that he was requested to maintain the list prices and to get his distributor, Corbett and Alfson, to adhere to the schedule on resale prices, and while respondent attempted by means of a self-serving letter, Plaintiff's Ex. 4 (R. 129), to deny that it had required petitioner to conform to the user price, petitioner testified in cross examination (R. 92) that respondent tried to force petitioner to maintain the resale price both before and after said letter was written by respondent's counsel.

The practice of maintaining the resale price of patented articles, even where the patent is valid, is condemned by this Court in *Bauer & Cie. v. O'Donnell,* 229 U.S. 1, where Mr. Justice Day, speaking for the Court, said (p. 17):

> "* * * it was the intention of Congress to secure an exclusive right to sell, and there is no grant of a privilege to keep up prices and prevent competition by notices restricting the price at which the article may be resold. The right to vend conferred by the patent law has been exercised, and the added restriction is beyond the protection and purpose of the act."

And in a recent decision, *Ethyl Gas v. United States,* 309 U.S. 436, the Court said:

> "And by the authorized sales of the fuel by refiners to jobbers the patent monopoly over it is exhausted, and after the sale neither appellant nor the refiners may longer rely on the patents to exercise any control over the price at which the fuel may be resold."

Conclusion.

It is the purpose of the Sherman Act to remove barriers to competition and this Court has condemned price fixing as illegal *per se*.

By its decision in the *Sola* case this Court applied the doctrine to contracts employing patents as a means of fixing prices and held that such are illegal under the Sherman Act unless the patent is valid. The patent here involved is so obviously invalid under the patent laws that it must be concluded that no product licensed to petitioner under the license contract is within the scope of a patent monopoly, and therefore the contract is illegal and in violation of the Sherman Act.

The decision below should be reversed and the Court below should be directed to vacate its judgment.

Respectfully submitted,

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